

Tax Facts

Information for Washington State's Business Community

Need help in January?

More than 300,000 businesses will file tax returns during the next several weeks. Many will call the Telephone Information Center or visit the Department's local offices to ask questions about specific tax applications or completing the Combined Excise Tax Return. If you need assistance during this busy period, you can help us provide better service by:

- ◆ Calling or visiting early in the month with your questions — before January 15th if possible;
- ◆ Checking office hours (see page 12) if you plan to visit one of our local offices — not all offices are open five days a week;
- ◆ Avoiding the hours of 11:30 a.m. to 1:00 p.m. Our staff members alternate their lunch hours during this time;
- ◆ Using our automated services — see page 10 for an explanation of these services;
- ◆ Having your UBI-DOR tax reporting account number and tax return available;
- ◆ Totaling your receipts for each tax classification (retailing, wholesaling, etc.) ahead of time; and
- ◆ Staying on the line if you need to talk to a representative — we answer every call in the order received. ▲

Annual tax return mailed

The Annual 1998 Combined Excise Tax Return and *Instructions for Completing the Annual 1998 Combined Excise Tax Return* was recently mailed to persons assigned to report annually. While it may seem early, we hope you'll take a few moments to think about the tax return now and avoid the last minute rush that frequently occurs around the due date. To help you, this issue of *Tax Facts* offers the following helpful hints to completing the tax return:

✓ Due date

The legal due date for an annual Combined Excise Tax Return is January 31 of the following year. However, when the due date falls on a Saturday, Sunday, or holiday, the due date is the next working day. Because January 31,

1999 falls on a Sunday, the due date for the Annual 1998 Combined Excise Tax Return (including any tax due) is February 1, 1999.

Most taxpayers send their tax return and payment via the US Postal Service. If you use the US Postal Service, the envelope must be postmarked on or before the due date to avoid a late payment penalty.

We recommend you mail your tax return early. The return is late and subject to penalty if you drop the return in a mailbox on the due date, but it is not picked up and postmarked until the following day. It is your responsibility to deliver the mail to the Postal Service in sufficient time to assure that it will be postmarked on or before the due date.

Some taxpayers bring their tax returns and payment into one of the Department's 14 field offices. If you personally deliver your tax return and payment, or use a commercial delivery service, it must be received in one of our offices by the due date to avoid costly late payment penalties. Office locations are listed on the back page of this publication.

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To inquire about the availability of this document in an alternate format for the visually impaired or a language other than English, please call 360-753-3217. TTY users please call 1-800-451-7985.

(Annual return continued from page 1 . . .)

✓ 3-Part reporting of B&O tax

As a result of various tax rate and reporting classification changes that occurred July 1, 1998, it is necessary to report gross income subject to B&O tax in three parts. With the exception of income subject to B&O tax under the retailing classification, income must be reported for January 1, 1998 through June 30, 1998, and July 1, 1998 through December 31, 1998. Income subject to B&O tax under the retailing classification must be reported for January 1, 1998 through December 31, 1998. There is no need to split the reporting of income from retailing activities because there was no change in the retailing B&O tax rate.

✓ Do not separate pages

Please do not separate tax return pages Separating the pages increases the chance that activity for your account will not be properly entered into the Department's computer records.

✓ Small business B&O tax credit

Don't forget to take the Small Business B&O Tax Credit if the amount of *business and occupation tax* you owe for the full year is less than \$840. A chart for determining the amount of credit is included with the tax return. To listen to prerecorded information about the Small Business B&O Tax Credit, call *Tax Express* (1-800-334-8969, code 136).

✓ Rounding off to whole dollars

You may find it easier to prepare your tax return if you round off to the nearest whole dollar by dropping amounts that are less than 50 cents and rounding up amounts that are 50 cents or more. For example, if gross sales/income for the year totals \$25,475.28, enter \$25,475 on the tax return. Or, if gross sales/income totals \$26,693.89, enter \$26,694 on the return.

If you round, do so for all amounts, including the calculated tax due. If you have to add two or more income figures to determine the gross amount to enter on a line of the tax return, include cents and round off the total.

✓ No deductions for business expenses

Washington's business taxes are generally based on the gross amount received or produced as opposed to the net income or net value. The term "gross amount" is a catch-all term for whichever of the following terms applies to your business: "gross income of the business," "gross proceeds of sales," or "value of products." The gross amount generally

includes money and other consideration (the value of property, rights, and services). This means there are no deductions for your costs of doing business.

✓ Remember 1998 litter tax

It's time to pay litter tax for 1998. Persons filing the Annual 1998 Combined Excise Tax Return report the tax on page three, line 69. Retailers, wholesalers, and manufacturers of certain products, as well as restaurants, drive-ins, and newspaper and magazine publishers owe litter tax on gross sales of products in the following categories:

- ◆ Food for human or pet consumption;
- ◆ Groceries;
- ◆ Cigarette and tobacco products;
- ◆ Soft drinks and carbonated beverages;
- ◆ Beer and other malt beverages;
- ◆ Wine;
- ◆ Newspapers and magazines;
- ◆ Household paper and paper products;
- ◆ Glass, metal, plastic or fiber containers;
- ◆ Cleaning agents;
- ◆ Toiletries; and
- ◆ Nondrug drugstore sundry products.

For more information about litter tax, call 1-800-647-7706 and ask to receive a copy of the Department's administrative rule, WAC 458-20-243.

✓ No business activity or no tax due

You must file the tax return even if you did not have any business or you owe no tax. If you had no business, please check the "No Business Activity" box above the signature line. You may also use the Department's 24-hour automated attendant (see page 10) to file a "No Business Activity" tax return.

✓ Local sales and use tax and special hotel/motel tax changes

During the past year, many local jurisdictions increased their local sales tax rates or began imposing a special hotel/motel tax for sales of transient lodging. Newly incorporated cities also started collecting local sales tax.

When completing the local sales tax section, please be sure you're reporting the correct location and rate. For assistance, please refer to the local sales and use tax and special hotel/motel tax sections of the *Instructions for Completing the Annual 1998 Combined Excise Tax Return*.

(Annual return continued from page 2 . . .)

✓ Make a copy for your records

Due to the number of enclosures with the tax return, there was no space to include a second copy of the tax return for your records. For this reason, you should make a photocopy of the completed tax return for your records.

✓ Signing the tax return

Please sign and date the return and include a daytime phone number. Please use the self-addressed envelope provided with the return to mail the original tax return. ▲

Repeal of selected/financial business services

As of July 1, 1998, the selected business services and financial business services B&O tax classifications were repealed. Persons previously reporting income under these classifications will now report under the service and other activities classification.

This change is a result of Engrossed House Bill (EHB) 1821 (chapter 7, Laws of 1997), Section 5. ▲

July 1 tax rate/classification changes

When completing the Annual 1998 Combined Excise Tax Return, you'll notice a change in tax rates and reporting classifications that occurred on July 1, 1998. There are three reasons for these changes;

1. A surtax imposed in 1993 expired;
2. Legislation passed in 1997 repealed the selected business and financial business services classifications (persons reporting under these classifications will report under the service and other activities classification); and
3. Legislation passed during the 1998 legislative session consolidates several rates and reporting classifications.

The table below reflects the July 1, 1998 changes. Please note, the table does not reflect the actual format of the Annual 1998 Combined Excise Tax Return. The B&O tax portion of the return has three parts to reflect rate and reporting changes. ▲

New B&O Tax Rates		
Tax Classification	Previous Rate	New Rate July 1, 1998
Extracting, Extracting for hire	.00506	.00484
Slaughter, Breaking, Processing Perishable Meat Wholesale, Manufacturing Wheat into Flour, Raw Seafood, Soybean & Canola Processing	.00144	.00138
Travel Agent Commissions	.00287	.00275
Splitting or Processing Dried Peas	.00287	.00138
International Charter Freight Brokers and Stevedoring	.00379	.00275
Insurance Agents/Insurance Brokers Commission	.00575	.00484
Manufacturing Fresh Fruits and Vegetables	.00345	.00138
Processing for Hire; Printing and Publishing	.00506	.00484
Manufacturing	.00506	.00484
*Royalties; Child Care		.00484
Wholesaling Wheat, Oats, Corn, Barley, Dry Peas, Dry Beans, Lentils, Triticale, Canola	.00011	exempt
Wholesaling	.00506	.00484
Warehousing, Radio & TV Broadcasting,	.00506	.00484
Public Road Construction/Government Contracting	.00506	.00484
Public or Nonprofit Hospitals	.015	.015
Cleanup of Radioactive Waste for US Government	.00471	.00471
*Environmental Cleanup		.00471
**Service and Other Activities	.01829	.015
Retailing of Interstate Transportation Equipment	.00506	.00484
Retailing	.00471	.00471

* New tax classification and rate

** Selected business services and financial business services repealed. Income previously reported under these classifications will be taxable under service and other activities classification

Rule changes

The Department of Revenue is responsible for administering most of the tax laws enacted by the Washington State Legislature. As a part of this responsibility, the Department publishes rules to assist taxpayers in accurately reporting their tax liability. To reflect changes in tax law and industry practices, these rules, Washington Administrative Code (WAC), often require revising via the rule-making procedure.

Administrative rules that have been adopted or canceled since the December 1997 issue of this publication are listed below. You may receive copies by using the Department's automated telephone system. For information about the automated system, including *Fast Fax*, see page 10.

Permanent adoption

WAC 458-16-110 (<i>Fast Fax</i> code 4110)	Applications-Who must file, initial applications, renewal applications, annual certifications. <i>Effective September 20, 1998</i>
WAC 458-16-165 (<i>Fast Fax</i> code 4165)	Conditions under which non-profit organizations, associations, or corporations may obtain a property tax exemption. <i>Effective September 20, 1998</i>
WAC 458-16-300 (<i>Fast Fax</i> code 4300)	Public meeting hall-Public meeting place-Community meeting hall. <i>Effective September 20, 1998</i>
WAC 458-16-310 (<i>Fast Fax</i> code 4310)	Community celebration facilities. <i>Effective September 20, 1998</i>
WAC 458-18-210 (<i>Fast Fax</i> code 4210)	Refunds Procedure Interest. <i>Effective January 1, 1998</i>
WAC 458-18-220 (<i>Fast Fax</i> code 4220)	Refunds Rate of Interest. <i>Effective January 1, 1998</i>
WAC 458-20-104 (<i>Fast Fax</i> code 2104)	Small business tax relief based on volume of business. <i>Effective August 27, 1998</i>
WAC 458-20-255 (<i>Fast Fax</i> code 2255)	Carbonated beverage and syrup tax. <i>Effective November 5, 1998</i>
WAC 458-20-259 (<i>Fast Fax</i> code 2259)	Small Timber Harvesters-Business and occupation tax exemption. <i>Effective September 5, 1998</i>
WAC 458-30-262 (<i>Fast Fax</i> code 4262)	Agricultural land valuation-Interest rate-Property tax component. <i>Effective January 1, 1998</i>

WAC 458-30-590
(*Fast Fax* code 4590)

WAC 458-40-540
(*Fast Fax* code 3540)

WAC 458-40-660
(*Fast Fax* code 3660)

WAC 458-40-660
(*Fast Fax* code 3660)

Rates of Inflation.
Effective January 1, 1998

Forest land values-1998.
Effective January 1, 1998

Timber excise tax - Stumpage value tables - Stumpage value adjustments.
Effective January 1, 1998

Timber excise tax--Stumpage value tables--Stumpage value adjustments.
Effective July 1, 1998

Repealed

WAC 458-12-245	Listing of property-Intangibles. <i>Effective July 22, 1998</i>
WAC 458-16-050	Senior citizens and disabled persons exemption-Amount of exemption. <i>Effective July 22, 1998</i>
WAC 458-16-111	Filing fees, penalties and refunds. <i>Effective September 19, 1998</i>
WAC 458-20-137	Articles manufactured and installed. <i>Effective January 18, 1998</i>
WAC 458-20-253	Mobile homes and mobile home park fees. <i>Effective January 18, 1998</i>

Information about the Department's rule-making activities is available from our Internet web site: <http://www.wa.gov/dor/wador.htm>. To access information about draft rules and future rule-making priorities, use the RULES/LAWS hot button. ▲

About the IRS . . .

Each year, we receive numerous calls requesting income tax assistance and forms. As a state agency, the Department of Revenue is not qualified to answer federal tax questions and does not maintain federal (IRS) forms. For assistance with federal tax forms, please contact the Internal Revenue Service at one of the following numbers:

Federal Tax Information	1-800-829-1040
IRS federal tax forms only	1-800-829-3676
Tele-tax Recorded Tax Information and Automated Refund Information	1-800-829-4477
TTY Only (Hearing & Speech Impaired)	1-800-829-4059
IRS Internet home page: http://www.irs.ustreas.gov/	



1998 TAX LAW CHANGES



1998 Legislative tax changes

The 1998 Legislature made several changes to taxes and programs administered by the Department of Revenue. We hope the summary on the pages that follow will help you understand and comply with the new tax laws. If you have questions about the changes, please contact your local Department of Revenue office or the Telephone Information Center. Phone numbers are listed on the back page of this publication.

Business and occupation tax, sales tax, use tax changes



Consolidation of B&O tax rates and reporting classifications — House Bill (HB) 2335 (Chapter 312, Laws of 1998) eliminates four B&O tax rates and either exempts or shifts specific activities to different tax rates/classifications. Wholesale sales of certain grains (wheat, oats, barley, dry peas and beans, lentils, triticale, canola, corn and rye) are exempt and there is a new tax rate for taxable child care activities (child care provided in church facilities and the care of children under the age of eight or below the first grade is exempt from B&O tax). The tax rate for child care is now .00484. A table on page 3 incorporates these and other tax rate changes from previous year's legislation, which took effect July 1, 1998. *Effective July 1, 1998.*



Elimination of annual summary and certificate filing requirement for manufacturing machinery and equipment — Senate Bill 6348 (Chapter 330, Laws of 1998) eliminates the requirement that purchasers of sales and use tax exempt manufacturing machinery and equipment (M&E) file annual summaries or individual certificates with the Department of Revenue. The Department of Revenue sought this legislation to reduce the paperwork burden on taxpayers. When the tax exemption was initially passed, the legislation required purchasers of eligible M&E to file an annual summary of purchases with the Department of Revenue. If the business did not file an annual summary, the business was required to file a copy of the exemption certificate used to purchase the M&E. The information from the certificates was to be used to generate fiscal impact reports to the legislature.

Senate Bill 6348 is effective on June 11, 1998. No annual summaries or duplicate certificates need to be filed after this date.

Exemption for gun safes — House Bill (HB) 2969 (Chapter 178, Laws of 1998), provides sales and use tax exemptions for gun safes. A gun safe is a locked enclosure designed to store a firearm, thereby preventing unauthorized use of the firearm. This sales tax exemption *does not* include trigger locks. *Effective July 1, 1998.*

Residential Coin-operated laundry facilities — Substitute House Bill (SHB) 1184 (Chapter 275, Laws of 1998) excludes from the definition of a retail sale charges for the use of coin-operated laundry facilities provided to tenants of apartments, rooming houses, and mobile home parks. As a result, neither the retailing classification of the B&O tax nor the retail sales tax applies to charges for use of the machines. However, income derived from charges for the use of coin-operated laundry facilities in such locations will be subject to B&O tax under the service and other activities classification. *Effective July 1, 1998.*

Alternative housing for youth in crisis — Senate Bill (SB) 5622 Chapter 183, Laws of 1998) removes the expiration date for the sales and use tax exemptions for items used by health or social welfare organizations for the new construction of alternative youth housing. *Effective June 11, 1998.*

Student Guarantee Loans — Senate Bill (SB) 5631 (Chapter 324, Laws of 1998) expands the B&O tax exemption for student loan guarantee agencies. Previously, RCW 82.04.367 provided a B&O tax exemption for nonprofit 501(c)(3) organizations that are either guarantee agencies under the federal guaranteed student loan program or issue debt to provide or acquire student loans. This bill expands the exemption to include nonprofit 501(c)(3) organizations providing guarantees for student loans made through programs other than the federal guarantee student loan program. *Effective June 11, 1998.*

B&O tax exemption for property managers — Senate Bill (SB) 6662 (Chapter 338, Laws of 1998) provides a B&O tax exemption for payments received by property management companies for payment of wages to on-site personnel. To qualify for the exemption, the compensation must be the obligation of the property owner and not the management firm. This must be stated in a written contractual agreement. Both parties must adhere to the terms of the written agreement in order for the exemption to apply to the payments. *Effective July 1, 1998.*



1998 TAX LAW CHANGES



B&O tax exemption for nonprofit organizations providing care for the terminally ill—Substitute Senate Bill (SSB) 6077 (Chapter 325, Laws of 1998) expands the exemptions within RCW 82.04.4289 to include nonprofit hospice agencies licensed under chapter 70.127 RCW. The B&O tax will not apply to amounts received by such qualified organizations for services rendered to patients or sales of prescription drugs furnished as an integral part of services rendered to patients. *Effective June 11, 1998.*



Dental laboratories and dental products — Engrossed House Bill (EHB) 1042 (Chapter 168, Laws of 1998) changes the business and occupation tax classification for dental laboratories and expands sales and use tax exemptions for certain dental appliances and devices.

EHB 1042 amends the definition of “manufacturing” to include the production or fabrication of dental appliances, devices, restorations, substitutes, or other dental laboratory products by a dental laboratory or dental technician. Previously, these activities were subject to B&O tax under the service and other activities classification at a tax rate of 1.75 percent (1.5 percent effective July 1, 1998). Under the manufacturing classification, the B&O rate applicable to dental laboratories is 0.484 percent effective October 1, 1998.

Because dental laboratories are now classified as manufacturers, they qualify for sales and use tax exemptions on purchases of manufacturing machinery and equipment directly used in their manufacturing process.

The legislation also expands an existing sales and use tax exemption for prosthetic or ostomic devices to include the components and repair services for such items. The legislation specifically states that dental appliances, devices, restorations, and substitutes, and the components are not subject to sales or use tax. Under the legislation, this includes full and partial dentures, crowns, inlays, fillings, braces, and retainers. *Effective October 1, 1998.*

Tax credits for international services — Engrossed Second Substitute House Bill (E2SHB) 2342 (Chapter 313, Laws of 1998) establishes a new B&O tax credit and insurance premiums tax credit for businesses that are engaged in certain international services. The credit amount is \$3,000 per year for up to five years. The credit is based on creating and filling new employment positions in Community Empowerment Zones or in designated census tracts in individual cities of at least 80,000 population or combinations of cities of at least 80,000. For areas that are not

Community Empowerment Zones, the city must pass an ordinance designating the appropriate census tracts as eligible areas. Areas eligible for the credit include the five Community Empowerment Zones located in Bremerton, Tacoma, Yakima, and Seattle (where there are two). Other eligible areas could include parts of Spokane, Vancouver, Everett and certain census tracts in Snohomish County. Not all of the zones have been designated, yet.

International Services are defined as services relating directly to the delivery of services outside the country in the following areas: computer, data processing, information, legal, accounting, tax preparation, design, engineering, architectural, business management and consulting, public relations, advertising, surveying, geological consulting, real estate appraisal, and financial services. *Effective July 1, 1998.*

Sales tax exemption for non-resident farmers — House Bill (HB) 2476 (Chapter 167, Laws of 1998) extends the sales tax exemption for purchases of farm machinery and implements by nonresident farmers to include repair charges. Previously, RCW 82.08.0268 provided a sales tax exemption for the purchase of farm machinery and implements by a nonresident farmer. This bill expands the exemption to include charges for repair labor. As was previously the case, the machinery, implements, and parts must be immediately transported outside of the state and, as proof of the exemption, the buyer must provide the seller with an exemption certificate as detailed in WAC 458-20-239. *Effective June 11, 1998.*

Royalty income subject to new tax rate and classification — Senate Bill (SB) 6449 (Chapter 331, Laws of 1998) changes the B&O tax rate applicable to royalty income. Previously, income received from royalties or charges in the nature of royalties for the granting of intangible rights was subject to B&O tax under the service and other activities classification. This bill establishes a new royalty classification. The tax rate for the royalty classification is now .00484. The term “royalties” means compensation for the use of intangible property such as copyrights, patents, licenses, franchises, trademarks, trade names and similar items. Compensation relating to natural resources, such as mining or drilling rights, continues to be subject to tax under the service and other activities classification. *Effective July 1, 1998.*



Use tax exemption for donated items — Substitute Senate Bill (SSB) 5355 (Chapter 182, Laws of 1998) exempts donors of tangible personal property to nonprofit charitable organizations and state and local governments from the use tax liability on the donated items when no intervening use has taken place. Previously, nonprofit and governmental entities were exempt from use tax on donated items, but the donors were subject to use tax if they had not previously paid retail sales tax or use tax on the item. This bill removes that liability. In addition, both the donor and donee are exempt from use tax on donated items which are incorporated into real property, such as building materials. *Effective June 11, 1998.*



Nonprofit fund raising activities — Senate Bill (SB) 6599 (Chapter 336, Laws of 1998) broadens and simplifies excise tax exemptions for nonprofit organizations conducting fund raising activities. Nonprofit organizations conducting fund raising activities which do not constitute the operation of a regular place of business are exempt from the B&O tax and the requirement to collect sales tax. The bill defines the terms “nonprofit organization” and “fund raising activity.” The bill also repeals laws which provided limited exemptions for bazaars, rummage sales, and auctions conducted by nonprofit organizations. *Effective June 11, 1998.*



Small irrigation districts — Substitute House Bill (SHB) 2711 (Chapter 316, Laws of 1998) expands public utility tax and B&O tax exemptions (RCW 82.04.312 and 82.16.042) for small water districts by including small irrigation districts established under Title 87 RCW and that provide residential drinking water. To qualify, the irrigation district must: have fewer than 1,500 connections; have water rates exceeding 125% of the average residential water rate published on or before July 1st of each year by the Department of Health; and expend at least 90% of the value of the exemption to repair, equip, maintain, and upgrade the water system. Documentation of eligibility for the exemption for both water and irrigation districts must now be provided to the Department of Revenue rather than the Department of Health. *Effective July 1, 1998. Scheduled to Expire July 1, 2004.*

Sales tax exemption for equipment used to produce power from landfill gas — House Bill (HB) 2278 (Chapter 309, Laws of 1998) expands 1996 sales and use tax exemptions (RCW 82.08.02567 and 82.12.02567) for machinery and equipment used directly in generating electricity using wind or solar energy to include machinery and equipment used directly to generate power using landfill gas. *Effective April 3, 1998. Scheduled to Expire June 1, 2005.*



Sales tax exemption for laundry services to non-profit health care facilities — House Bill (HB) 2566 (Chapter 315, Laws of 1998) exempts from retail sales tax all charges to nonprofit health care facilities for laundry services. The law previously provided an exemption for an association of nonprofit hospitals to contract with one of its members for laundry services without incurring a retail sales tax liability. The new law expands the sales tax exemption so that all nonprofit health care facilities are exempt from retail sales tax on charges for laundry services by any laundry service business. *Effective June 11, 1998.*

B&O tax reduction for prescription drug warehouses and wholesalers — Engrossed Substitute House Bill (ESHB) 2933 (Chapter 343, Laws of 1998) establishes a new B&O tax rate for businesses warehousing and reselling prescription drugs. Such businesses purchase prescription drugs from manufacturers or wholesalers and resell them to hospitals, retailers, clinics, or other health care providers. To qualify for the lower tax rate, the business must be registered with the federal DEA and licensed by the state Board of Pharmacy. The B&O tax rate for this activity is reduced from .00484 to .00138. *Effective July 1, 2001.*

Racing fuel — Substitute House Bill (SHB) 2917 (Chapter 115, Laws of 1998) clarifies that purchases of leaded fuel for use in racing vehicles are subject to sales tax or use tax instead of the motor vehicle fuel tax. The bill also requires the Department of Revenue to deposit tax revenues from sales of leaded fuel for racing vehicles into an account earmarked for use in mitigating the environmental impacts transportation projects. *Effective June 11, 1998.*

Electronic transmission of food stamp benefits — House Bill (HB) 2692 (Chapter 79, Laws of 1998) incorporates the electronic transfer of food stamp benefits into existing laws pertaining to food stamps. The federal food stamp program now provides for the electronic transfer of program benefits. State laws have been amended to reflect this provision. There is no change in the taxability of food stamp purchases. *Effective June 11, 1998.*



Internal distributions classification eliminated — Senate Bill (SB) 6270 (Chapter 329, Laws of 1998) eliminates the tax on internal distributions. Previously, the internal distributions classification of the B&O tax applied to businesses distributing, without sale, property from their own warehouse or central location in this state to two or more of their own retail stores or outlets. As a result of this law change, businesses are no longer required to report or pay the internal distribution tax. *Effective July 1, 1998.*





1998 TAX LAW CHANGES



B&O tax exemption for conditioned seed — Engrossed Second Substitute House Bill (E2SHB) 1328 (Chapter 170, Laws of 1998) provides a B&O tax exemption for persons making wholesale sales to farmers of seed conditioned for use in planting, as long as it is not packaged for retail sale. The exemption also applies to persons conditioning seed owned by others. The term “seed” includes seed potatoes and all other agricultural seed as defined in RCW 15.49.011. It does not include flower or vegetable seeds or any other seeds or propagative portions of plants used to grow ornamental flowers or any type of bush, moss, fern, shrub, or tree. *Effective July 1, 1998.*



Taxation of computer software — Engrossed Substitute Senate Bill (ESSB) 6470 (Chapter 332, Laws of 1998) excludes the customization of canned software from the definition of a retail sale and provides that income from creating and distributing custom software and customizing canned software is subject to B&O tax under the service classification. The bill also defines various software-related terms. *Effective July 1, 1998.*



Environmental remedial action — Substitute House Bill (SHB 2051) (Chapter 308, Laws of 1998) excludes from the definition of a retail sale charges for labor and services relating to environmental remedial actions and establishes a new B&O tax rate (0.471 percent). The term “environmental remedial action” means those services relating to identification, investigation, or cleanup of hazardous substances arising from a release or threatened release in one of four situations: (1) for independent cleanups if the service is substantially equivalent to a cleanup conducted by the Department of Ecology under the state Model Toxics Control Act; (2) for independent cleanups if the service is consistent with the federal Comprehensive Environmental Response Compensation and Liability Act; (3) when the services are performed pursuant to an order by the Department of Ecology; or (4) when the services are conducted under the federal Comprehensive Environmental Response Compensation and Liability Act. Property owners must provide certain certifications to the Departments of Ecology and Revenue together with a certification from an environmental professional. Within 30 days of receiving such certifications, the Department of Revenue is to provide confirmation of receipt of the certifications. To exempt charges for labor and services from the sales tax, property owners must give a copy of the confirmation to persons performing environmental remedial action. This bill also expands the definition of a consumer to include persons performing environmental remedial actions. Consequently, such persons owe retail

sales or use tax when acquiring tangible personal property to use while performing environmental remedial actions. *This bill is effective July 1, 1998 and expires July 1, 2003.*

Property tax changes

Property taxation of steamship companies and vessels or ferries — Senate Bill (SB) 6552 (Chapter 335, Laws of 1998) changes the manner in which steamboat businesses are assessed property tax. Currently, the Department of Revenue centrally assesses the real and personal property of steamboat companies. Steamboat companies are those businesses using vessels or ferries to transport persons or property for hire upon Washington waters. As a result of this bill, county assessors will assess all personal property (other than vessels and ferries) and the real property of steamship companies. In addition, ferries and vessels used by steamship companies will be subject to the commercial vessel tax instead of the property tax. Thus, ferries and other vessels used by steamship companies will be subject to tax in the same manner as other commercial vessels. Because ferries and vessels will be subject to the commercial vessel tax, steamship companies must annually list such watercraft with the Department's Special Programs Division. *Effective January 1, 1999.*

Hardship waiver of interest and penalties — Engrossed Substitute Senate Bill (ESSB) 6205 (Chapter 327, Laws of 1998) allows a waiver of interest and penalties on delinquent property taxes for personal residences due to hardship caused by the death of a spouse, parent, or stepparent. Waiver of interest and penalties requires the taxpayer to notify the county treasurer of the hardship within sixty days of the tax due date. *Effective June 11, 1998.*

Real estate excise tax changes

Revision to real estate excise tax processing fee — Substitute House Bill (SHB) 2411 (Chapter 106, Laws of 1998) revises RCW 82.45.180 so that a total of \$2.00 shall be collected in the form of a tax and fee, where the calculated real estate excise tax payment is less than \$2.00. No processing fee is due if the total state and local tax owing on a sale is \$2.00 or more. This bill does not make the current Real Estate Excise Tax Affidavit obsolete. Consequently, county treasurers will continue using the current form until such time as the current stock of affidavits is depleted. *Effective June 11, 1998.*

Other legislation

Litter tax changes — Second Substitute House Bill (2SHB) 3058 (Chapter 257, Laws of 1998) requires persons reporting litter tax to do so according to their assigned reporting frequency. Currently, persons making sales of certain products report and pay the litter tax as an annual assessment on the final Combined Excise Tax Return of each calendar year. Beginning in January, 1999, persons reporting monthly will report and pay litter tax each month. Persons reporting quarterly will report and pay the tax each quarter. *Effective June 11, 1998.*


Changes to 911 telephone tax — Substitute House Bill (SHB) 1126 (Chapter 304, Laws of 1998) deletes a scheduled drop in the state enhanced 911 tax rate to 10 cents on switched access telephone lines and establishes a maximum state tax rate of 20 cents which will be deposited to an enhanced 911 account. The bill switches responsibility for collecting and administering the state enhanced 911 tax from the Military Department to the Department of Revenue. In addition, the bill establishes and provides for types of expenditures that may be made from the tax collected. *Establishment of the enhanced 911 account and spending provisions take effect July 1, 1998 while other provisions take effect January 1, 1999.*












Vessel registration requirements for nonresident individuals — Substitute Senate Bill (SSB) 6603 (Chapter 198 Laws of 1998) increases to six months the period nonresident individuals may use vessels in this state without being subject to Washington's registration requirements. Before the 61st day of use in this state, however, nonresident vessel owners must obtain an identification document from the Department of Licensing indicating when the vessel first entered Washington. *Effective March 27, 1998.*

Department to conduct studies — Engrossed Substitute Senate Bill (ESSB) 6108 (Chapter 346, Laws of 1988) directs the Department to examine implementation of enhanced 911 emergency communications services for ratio access telephone lines and study retailer's costs associated with collecting the combined state and local retail sales tax. The Department must prepare a final study report for the Legislature by December 31, 1998. Another bill, Engrossed Substitute Senate Bill (ESSB) 6456 (Chapter 348, Laws of 1998) directs the Department to assist in a Department of Licensing study of the local option fuel tax. *Effective April 3, 1998.* ▲



Special Notices detail differences

Since the December 1997 issue of *Tax Facts*, the Department of Revenue has issued several Special Notices discussing various issues, including new legislation. This symbol  identifies notices addressing new legislation. If you want to receive one of these notices, you may use the order form on page 11. You may also use the Department's automated phone system to request a copy be mailed or faxed to you (see 24-hour automated services, page 10). Special notices are also available for viewing and downloading from the Department's Internet home page: <http://www.wa.gov/dor/wador.htm>

Fast Fax Code	Title	Issue Date
748	Eligible Areas for Tax Deferrals/Exemptions and Credits	August 12, 1998
749	Tax Due on Commercial Use of Molds by Orthotic and Prosthetic Manufacturers	January 30, 1998
750	 Distressed Counties and Local Option Taxes	June 1, 1998
751	 Changes to the Manufacturing Machinery and Equipment Sales and Use Tax Exemption Certification and Reporting Requirements	June 30, 1998
752	 Tax Changes on Dental Laboratories and Products	October 1, 1998
754	 Important Changes for Nonprofit Organizations and Local Governments	June 16, 1998
755	 Internal Distributions Tax Classification Eliminated July 1, 1998	June 26, 1998
756	 Business and Occupation Tax Classification and Rate Changes	June 26, 1998
757	 Taxation of Software Services and Canned Software Sales or Licensing	June 3, 1998
758	 Tax Incentives for Environmental Remedial Actions	June 3, 1998
759	 Excise Tax Exemption for Small Water Districts and Small Irrigation Districts	August 3, 1998
760	Rule Change on the Small Business Credit for Businesses with Multiple Accounts	June 19, 1998
761	Sales Tax Exemption for Foreign Diplomats	August 3, 1998
762	 Combined Excise Tax Return Classification Reporting Change	August 13, 1998
763	 High Technology Business and Occupation Tax Credit Rate Change	July 22, 1998
764	Sales Tax Collection Requirement on Sales of Manufactured Housing	October 1, 1998



Hiring a contractor?

Don't forget to record contractor's UBI number

Persons hiring contractors to construct, remodel, or repair a building must record the contractor's UBI/tax registration number. Last year, the Legislature passed HB 1514 (Chapter 54, Laws of 1997) to require persons who hire general, specialty, or electrical contractors to obtain and keep a record of the contractor's UBI number. ***Failure to do so can lead to monetary penalties of up to two hundred and fifty dollars imposed by the Department of Revenue and a two-year ban on bidding on public works contracts.*** The Departments of Labor and Industries and Employment Security may also impose monetary penalties for failing to comply with this new law. The law took effect July 27, 1997. ▲

Refunds receive new look

Are you expecting a refund from the Department of Revenue? If so, the refund you receive may have a new look.

Currently, the Department mails refund warrants (checks) in envelopes. This method, however, is about to change. The Department of Revenue is now testing "self-mailer" refunds. Similar to rebates issued by consumer product manufacturers, self-mailer refunds are printed on a full sheet of paper and mechanically folded in such a manner that the check becomes part of the envelope. To allow for easy separation, the sides of the self-mailer are perforated.

The Department expects self-mailer refunds to be in use by early 1999. ▲

24-hour automated services



The Department of Revenue's Telephone Information Center offers several automated services. With the exception of *Tax Express* and Revenue's Internet home page, you can access any of these services by calling 1-800-647-7706. Listen to the menu and select the option you wish to use.

Fast Fax — transmit documents directly to your fax machine. For a list of available documents, enter code 500#. To bypass menu selections, call (360) 786-6116.

Workshops — call to attend one of the spring or fall UBI Business Information Workshops.

Vehicle or vessel fraud — report vehicle or vessel licensing fraud.

Address changes — notify us if you have moved or changed your mailing address.

Business closures — notify us if you have closed or sold all or a part of your business. If you've sold your business, tell us who you sold the business to and whether you'll continue to do business under your UBI/tax registration number.

Master Applications — request a new Master Application if you're changing your

business structure (legal entity), changing or adding a trade name, opening a new location, reopening a closed business, divorcing and your spouse is no longer responsible for the business, changing your principal product or service and a license from another agency is required, or transferring the majority of a corporation's stock to different individuals.

Copies of rules, laws, or other departmental publications — request a rule, law, or other publication. An order form listing the Department's fact sheets and brochures is available via *Fast Fax*, code 501#.

Proposed rules — leave informal comments on proposed rule changes or ask to be placed on a mailing list to receive notice of future proposed rule-making actions.

Delinquent notices/no tax returns — clear the delinquency if you have received a delinquent notice and you have no business to report.

Duplicate tax returns — request a new tax return if you've misplaced your tax return. You can have the return faxed or mailed. Have your UBI/tax registration number ready when calling.

Tax Express — listen to prerecorded tax information by calling 1-800-334-8969. To listen to the topic of your choice, enter the three-digit code. To receive a list of topics and codes, call 1-800-647-7706 and leave a message with the automated voice attendant.

Revenue's home page — see what's new on our home page:
<http://www.wa.gov/dor/wador.htm>

Order Form

The Department of Revenue offers numerous publications covering a wide range of topics. These publications are available upon request from any Department of Revenue local district office, or by calling the Telephone Information Center at (800) 647-7706, or by completing this form and mailing it to: Department of Revenue, Taxpayer Services Division, PO Box 47478, Olympia, WA 98504-7478. Many of these publications are also available on the Department's Internet web site at: <http://www.wa.gov/dor/wador.htm>

Quantity Publication

- _____ Active, Nonreporting Business
- _____ Aircraft Taxes
- _____ Audit Process
- _____ Deferrals, Credits and Exemptions
- _____ Below Minimum
- _____ Business and Occupation Tax
- _____ Business Tax Overview
- _____ Cigarette Tax
- _____ Collection Process
- _____ Electronic Funds Transfer
- _____ Farm Use Tax
- _____ Fast Fax
- _____ Fish Taxes
- _____ Hazardous Substance Tax
- _____ High Technology B&O Tax Credit
- _____ Home Owner's Guide to Property Tax
- _____ Horse Industry Tip Sheet
- _____ How to Amend Your Combined Excise Tax Return
- _____ Nonprofit Organizations
- _____ Outline of Major Taxes
- _____ Personal Property Tax

Quantity Publication

- _____ Property Tax Deferrals for Senior Citizens and Disabled Persons
- _____ Property Tax Exemptions for Senior Citizens and Disabled Persons
- _____ Resale Certificate
- _____ Real Estate Transactions and Use Tax
- _____ Retail Sales Tax
- _____ Tax Relief for Senior Citizens and Disabled Persons
- _____ Small Claims Hearings
- _____ Tax, Title and Registration of Boats
- _____ Taxpayer Rights and Responsibilities
- _____ Temporary Business Registration
- _____ Unclaimed Property
- _____ Use Tax
- _____ WAC Rule _____

(identify by number)

Please Send Publication(s) To:

Contact Person: _____
 Business Name: _____
 Street Address: _____
 City, State, Zip: _____



1-800-334-8969

Prerecorded Tax Information
24 hours a day

TAX INFORMATION

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TELEPHONE NUMBERS FOR OTHER AGENCIES

Internal Revenue Service (IRS)
1-800-829-1040
Master Application Status,
Department of Licensing
(360) 664-1400

DIRECTIONS TO REVENUE OFFICES

- 225 Seattle
- 226 Renton
- 227 Olympia



Taxpayer Services Division
Washington State Department of Revenue
PO Box 47478
Olympia WA 98504-7478

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We want to help you. For assistance, please call the location nearest you or the Telephone Information Center at
1-800-647-7706.

Department of Revenue Field Offices

ABERDEEN (360) 533-9312

110 W Market St
PO Box 1018 Zip: 98520-0209
M/F 8am-11:30am, 12:30pm-5pm,
T/Th closed, W 8am-1pm

BELLINGHAM (360) 676-2114

1904 Humboldt St, Suite A
PO Box 1176 Zip: 98227-1176
M-F 8am-11:30am, 12:30pm-5pm

BREMERTON (360) 478-4961

4841 Auto Ctr Way Suite 201
Zip: 98312-4394
M-F 8am-11:30am, 12:30pm-5pm

EVERETT (425) 356-2911

11627 B Airport Rd Zip: 98204-8714
M-F 8am-5pm

KENNEWICK (509) 585-1501

22 West Kennewick Ave
PO Box 7207 Zip: 99336-0616
M-F 8am-5pm

OLYMPIA (360) 753-3181

Target Place
2735 Harrison Ave NW
PO Box 7 Zip: 98507-0007
M-F 8am-5pm

PORT ANGELES (360) 457-2564

734-East 1st Street Suite B
PO Box 400 Zip: 98362-0064
M/W/F 8am-11:30am, 12:30pm-5pm
T/Th closed

RENTON (425) 277-7300

919 SW Grady Way Suite 150
PO Box 877 Zip: 98057-0877
M-F 8am-5pm

SEATTLE (206) 956-3000

2101 4th Ave Suite 1400
Zip: 98121-2300
M-F 8am-5pm

SPOKANE (509) 482-3800

4407 N Division Suite 300
Zip: 99207-1685
M-F 8am-5pm

TACOMA (253) 593-2722

3315 South 23rd Street Suite 300
Zip: 98405-1605
M-F 8am-5pm

VANCOUVER (360) 260-6176

8008 NE 4th Plain Blvd Suite 320
PO Box 1648 Zip: 98668-1648
M-F 8am-5pm

WENATCHEE (509) 663-9714

630 N Chelan Suite B3
PO Box 220 Zip: 98807-0220
M-F 8am-11:30am, 12:30pm-5pm

YAKIMA (509) 575-2783

1714 S 16th Ave Zip: 98902-5713
M-F 8am-5pm



<http://www.wa.gov/dor/wador.htm>

Prepared by the Taxpayer Services Division